



IMPACT OF COVID 19 IN MERGER & ACQUISITION OF INDIAN PHARMA COMPANY

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ABSTRACT

The impact of COVID-19 on pharmaceuticals M&A, even as the sector continues to work overtime to find a preventive (and possibly curative) solution to the pandemic and restore the 'health currency' necessary to drive the broader global economy, challenging issues to tackle and huge network of smart people are working day and night to come out this situation.

This pandemic opens many avenues of opportunities and growth though innovation is fragmented idea in this new topic. The biopharma are facing very challenging environment to adopt the idea of thrive in era of covid 19. Some big pharma come together to join the hands for vaccination. M&A is a labour-intensive activity that requires a lot of hard work, evaluation and collaborative effort across several organisations, multiple negotiation meetings, site visits to assess physical assets, evaluating markets, sifting through millions of documents, and so on. Industry participants have adjusted to the reality of simulation based ideas and webinars. But the complete standstill of the first few months and the need for physical diligence for a few critical parts have caused the timing shift. To bring back the life in the normal course it is necessary to make vaccine of covid 19 to reduce the effect. New investors are accelerating their pace in merger and acquisition in pharmaceutical industry. Lots of webinars are going on this topic to combat the situation. To achieve the concept of health currency we need to work hard including researchers, scientists, pharma companies' academicians etc.

KEYWORDS: impact, webinar, simulation, covid, timing shift, health currency.

1. INTRODUCTION:

Increase in the case of covid cases in India coupled with the many problems in medical infrastructure leads to penetration of health insurance and merger and acquisition of the Indian company in the biopharma sectors. The impact of covid 19 dismantled the strategy of new drugs discovery but equally new hope also arises in the drug discovery field or health sector. Invariably, when there is significant economic or other uncertainty in the world of M&A deal making, leverage shifts toward buyers and away from sellers. This was certainly the case with respect to deal making in the context of the burst of the dot-com bubble and deal making in the context of the Great Recession.

The coronavirus (COVID-19) crisis is having and will continue to have a material global impact on mergers and acquisitions ("M&A"). On a massive scale and in a very short period of time, hundreds of thousands of businesses have shuttered or cut back their operations significantly, millions of workers have been laid off or furloughed, consumer spending has been drastically reduced, supply chains have been disrupted, and demand for oil and other energy sources has plummeted. An E&Y paper titled 'Transaction 2017' says, India continues to enjoy a prominent position. The Covid-19 pandemic might have pushed several economies and businesses to the brink, but what stood strong at such a crucial period was India's pharmaceutical industry.

The government's focus on supporting the growth of the domestic pharma sector amid the pandemic couldn't have been timed better, say sector stakeholders.

Last month, the government had approved a production-linked incentive (PLI) scheme for the pharmaceutical sector, entailing an outlay of Rs 15,000 crore

Objective:

The objective behind merger and acquisition of the company is-

- Improving company's performance and accelerate growth and enhance profitability.
- Maximization of growth and profitability
- To enhance market share and investing opportunities
- Strategic realignment, technological improvement and competitive edge
- To balance whole system of demand and supply
- Health is a major issue to address in a third world countries

2. RESTORATION OF HEALTH CURRENCY:

The impact of covid and recent changes in the lifestyle of the people make them vulnerable to diseases and more aware towards health. Pricing is an important fac-

tor for both the investors and buyers. At the time merger and acquisition one should care for this factor.

Considering Mr. A and B as a seller and buyer respectively, Mr. A is in a state of heavy bargaining, thereby favouring a price mechanism, which settles the eventual purchase price on the basis of the financial statements, with respect to the target business on a particular date before actually signing the "purchase agreement", thereby shifting the onus to the buyers, much before than the closing date. The pandemic has led to unnatural stock levels and unexpected figures for accounts payable as well as accounts receivable. Mr. B might also recommend deferring the payment of the fraction of purchase amount with earn-outs.

Unnatural stock level while merger and acquisition is the new problem for investors during this pandemic.

A recent manufacturing survey by FICCI noted that pharmaceutical is among the sectors expected to register strong growth going forward.

According to total sales audit data from IMS, Indian pharma market grew 2.6 per cent in February, decelerating from 6.6 per cent growth in January, said a report by Emkay Global Financial Services.

On the basis of moving annual total (MAT), the Indian Pharma Market (IPM) grew 3.4 per cent, primarily driven by new products growth of 3.4 percent. Further, vaccine maker Indian Immunologicals (IIL) in November 2020 began work to establish a new viral antigen manufacturing plant at an investment of Rs 75 crore near Hyderabad.

Further, the major focus on turning self-reliant in terms of APIs would also go a long way for the Indian pharmaceutical industry which was so far largely dependent on APIs from China.

Meanwhile we have to consider all strategy of M&A to find the stability in the international market.

Many private company M&A transactions include purchase price adjustment provisions based on the amount of the seller's cash and indebtedness at closing. There is also typically a purchase price adjustment based on a comparison of the level of the seller's working capital at closing to a target amount of "normalized" working capital. For transactions that were already signed (but not closed) before the coronavirus crisis, such adjustment provisions may result in reductions at closing to the net purchase price that the seller had previously expected to receive. For transactions yet to be signed, the COVID-19 pandemic will undoubtedly result in changes to practices associated with these provisions. Result and Discussion: In this unprecedented situation, there will be many entities that will not be able to meet their financial commitments, and if the aid from the government does not come on time, we may see the biopharma acquiring some smaller entities at a lower price. On the other hand, we may also see some

businesses which are riding high in this economic downturn being offered at a high price when this unrest is settled. Indian Drugs & Pharmaceuticals sector has received cumulative FDI worth US\$ 15.83 billion between April 2000 and June 2018. After analysing in the impact of covid 19 in biopharma it is worthwhile to take risk. The major biopharma companies are eager in new investment though situation is not very supportive to them. The Indian government has taken many steps to reduce costs and bring down healthcare expenses. Speedy introduction of generic drugs into the market has remained in focus and is expected to benefit the Indian pharmaceutical companies. In addition, the thrust on rural health programmes, lifesaving drugs and preventive vaccines also augurs well for the pharmaceutical companies.

Many M&A transactions are based on the premise that it makes perfect logic to inorganically acquire key customers or key suppliers of the target enterprise as it gives the opportunity to add margins to the company with little incremental effort.

After the acquisition, the managements are often left with multiple products in their portfolio, with many of them competing against one another. Many companies faced with such a situation try and issue a death warrant for the weaker product rather than managing both the products, leaving a void for the competition to come and capture some market share which has been paid for

CONCLUSION:

Indian pharmaceutical sector accounts for about 2.4% of the global pharmaceutical industry in value terms and 10% in volume terms

The sector increased at a CAGR of ~13% over 10 year period and is expected to grow at a CAGR of ~22% to reach USD 55 billion by 2020 (from 2015). The impact of covid is serious

The government, on its part, took steps such as measures to improve bulk drug manufacturing in India to reduce dependence on China and planning a separate ministry for pharmaceuticals sector to boost the domestic industry.

The spate of acquisitions is not going to die down any further and is only slated to gain momentum in the coming months with more deals in the pipeline. India is also gaining momentum in its own way. The aforementioned paper gives an overview of radical changes in trends of mergers and acquisitions post 1990 reforms, specifically in pharmaceutical sector. These reforms are inclusive of Liberalization, Privatization and Globalization policies, changes in Monopolies and Restrictive Trade Practices Act (1969), Takeover Code and Income Tax Act (1961) and myriad others which impacted the existing structure of Mergers and Acquisitions. It further establishes to examine two renowned pharmaceutical mergers, Sun Pharma-Ranbaxy and Lupin-Gavis.

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